



Valero Bulls Position as Refiners Seen Rising

Ticker/Price: VLO (\$78.5)

Analysis:

Valero (VLO) with 2,500 June \$85 calls opening this morning for \$3.44 and follows buyers in the Jan. 2020 \$82.50 calls on Friday 2,000X. The February \$80 and \$85 calls with recent accumulation as well. On 12/14, a Director bought \$1.8M in stock at \$72.73, the largest open market buy in the name in years. Shares are forming a multi-week base under the 50-day EMA at \$80 after clearing a downtrend from the Fall highs. A move above \$82.50 has room back to \$95 and a gap from October. The \$33.35B company trades 9.4X earnings, 0.29X sales, and 9.4X cash with a 4% yield. VLO expects 30% EPS growth in each of the next two years with revenues growing 5.2% and 8.4%. VLO is seeing better results from their core refinery operations as capacity utilization and volumes improve while margins remain strong. They expect to spend around \$1B on growth projects in the upcoming year including the Diamond Green expansion. Analysts have an average target for shares of \$117 with 13 buy ratings, 7 hold ratings, and 1 sell rating. Piper started at Overweight on 1/10 with a \$97 PT while CSFB upgraded shares to Outperform on 11/1. The firm notes that as cracks stabilize and refining equities reverse course, VLO has more upside than its diversified peers. Barclays positive on 10/26 noting that shares screen cheap on a SOTP valuation (~\$140) even if you eliminate all IMO benefits. Short interest is 2% and well off the 2018 highs near 4.2%. Institutional ownership rose 8.3% last quarter. AQR, Arrowstreet, and Panagora all notable buyers.

Hawk Vision:



Trading Strategy: VLO joins a long list of Refiners with bullish positioning over the past week, and looks to have room to run here above the 50 MA. HFC is my preferred name in the group, but has not seen the flows. It tends to be a good signal when a number of peers see similar flows.

Confidence Ranking: \$\$